

Lake County, Michigan
Building Authority
FINANCIAL STATEMENTS
December 31, 2003

Lake County, Michigan

Building Authority

December 31, 2003

BOARD OF DIRECTORS

Jack Chase

Chairman

Donald Arquette

Vice Chairman

Sharyn McGreehan

Secretary

Donald Turnwall

Treasurer

Phil Ryskamp

Board member

Lake County, Michigan

Building Authority

TABLE OF CONTENTS

December 31, 2003

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet - All Fund Types and Account Groups	2
Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	3
Notes to Financial Statements	4-10
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11-12

Principals

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Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lake County Building Authority
Baldwin, Michigan

We have audited the component unit financial statements of the Lake County Building Authority as of and for the year ended December 31, 2003, as listed in the Table of Contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Lake County Building Authority as of December 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2004, on our consideration of Lake County Building Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 15, 2004

Lake County, Michigan

Building Authority

BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 2003

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
ASSETS					
Cash and cash equivalents	\$ 270,993	\$ 14,369	\$ -	\$ -	\$ 285,362
Investments - restricted	356,328	-	-	-	356,328
Net leasehold receivable	11,851,715	-	-	-	11,851,715
Fixed assets	-	-	8,361,766	-	8,361,766
Amount available in debt service funds	-	-	-	627,321	627,321
Amount to be provided for retirement of general long-term debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,486,679</u>	<u>6,486,679</u>
TOTAL ASSETS	<u>\$12,479,036</u>	<u>\$ 14,369</u>	<u>\$ 8,361,766</u>	<u>\$ 7,114,000</u>	<u>\$ 27,969,171</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Deferred revenue	\$11,851,715	\$ -	\$ -	\$ -	\$ 11,851,715
Bonds Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,114,000</u>	<u>7,114,000</u>
TOTAL LIABILITIES	11,851,715	-0-	-0-	7,114,000	18,965,715
FUND BALANCE					
Investment in fixed assets	-	-	8,361,766	-	8,361,766
Reserved for debt service	627,321	-	-	-	627,321
Unreserved - Designated for capital expenditures	<u>-</u>	<u>14,369</u>	<u>-</u>	<u>-</u>	<u>14,369</u>
TOTAL FUND BALANCE	<u>627,321</u>	<u>14,369</u>	<u>8,361,766</u>	<u>-0-</u>	<u>9,003,456</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$12,479,036</u>	<u>\$ 14,369</u>	<u>\$ 8,361,766</u>	<u>\$ 7,114,000</u>	<u>\$ 27,969,171</u>

See accompanying notes to financial statements.

Lake County, Michigan

Building Authority

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year Ended December 31, 2003

	Debt <u>Service</u>	Capital <u>Projects</u>	Totals (Memorandum Only)
REVENUES			
Interest and rents	\$ 9,699	\$ 133	\$ 9,832
EXPENDITURES			
Current			
Other	2,722	4,103	6,825
Debt Service			
Principal retirement	223,000	-	223,000
Interest and fiscal charges	<u>374,274</u>	<u>-</u>	<u>374,274</u>
TOTAL EXPENDITURES	<u>599,996</u>	<u>4,103</u>	<u>604,099</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(590,297)	(3,970)	(594,267)
OTHER FINANCING SOURCES			
Operating transfers in	<u>600,274</u>	<u>-</u>	<u>600,274</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	9,977	(3,970)	6,007
Fund balance, beginning of year	617,344	7,841	625,185
Prior period adjustment	<u>-</u>	<u>10,498</u>	<u>10,498</u>
Fund balance, end of year	<u>\$ 627,321</u>	<u>\$ 14,369</u>	<u>\$ 641,690</u>

See accompanying notes to financial statements.

Lake County, Michigan

Building Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lake County Building Authority was created in 1990, pursuant to Act 31, Public Acts of Michigan, 1948 as amended. The Authority has no stockholders and all monies received are to be used for certain specified purposes in accordance with the Lake County resolution establishing the Authority, as amended.

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Lake County Building Authority. The Authority is considered a fund of the Lake County's governmental operation. As a result, industry standards require the County to include the financial activities of the Authority in the County's Annual Financial Report. The Annual Financial Report of Lake County, the Primary Government, is available for public inspection at the Lake County Courthouse.

2. Basis of Presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activity of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds and account group in the financial statements in this report are described as follows:

GOVERNMENTAL FUNDS

- a. Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, General Long-Term Debt principal, interest, and related costs.
- b. Capital Project Fund - The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital projects.

ACCOUNT GROUP

- a. General Fixed Asset Account Group - The General Fixed Assets Account Group is a self-balancing group of accounts used to establish accounting control over the fixed assets of the Building Authority.
- b. General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to establish accounting control and accountability for the unmatured principal on the Authority's long-term debt.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Cash and cash equivalents

Cash of the Authority consists of the Authority's portion of the County common pooled checking account and various separate checking accounts. Cash equivalents consist of temporary investments in mutual funds invested in U.S. Treasury securities with a maturity from the date of purchase of 90 days or less.

6. Investments

Investments consist of U.S. Treasury Bonds with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

7. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in a General Fixed Assets Account Group rather than in governmental funds. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types. Fixed assets with an estimated useful life of greater than one (1) year are capitalized in the General Fixed Asset Account Group.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

Fixed assets are recorded at cost or estimated cost or, if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Public domain (infrastructure) general fixed assets which include roads, bridges, curbs and gutters, sidewalks, and drains are not capitalized.

Under capitalized lease-purchase agreements, the Primary Government pays an annual rent to the Lake County Building Authority for the servicing of bonded debt incurred for the construction of various County buildings. The related debt is recorded in the General Long-Term Debt Account Group and related assets are recorded in the General Fixed Assets Account Group of the Authority.

8. Federal Programs

The Lake County Building Authority is a participant in federal loan program with the United States Department of Agriculture. As a component unit of the primary government these funds were included and audited during the federal compliance (Single Audit) audit of the primary government. A copy of the Lake County Single Audit is available for public inspection at the Lake County Courthouse.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Lake County, Michigan

Building Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposit of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

The Authority's deposits at December 31, 2003, are composed of the following:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 1,100	\$ 1,100
Savings	<u>96,975</u>	<u>96,975</u>
	<u>\$ 98,075</u>	<u>\$ 98,075</u>

A portion of the deposits of the Authority are part of the County's common pooled cash checking account and are disclosed in Note C in the County's financial statements. Because this cash is part of the common pool, and because FDIC limitations apply to the County as a whole, FDIC insurance coverage for the Authority's cash is undeterminable.

Due to significantly higher cash flow at certain periods during the year, the amount the Authority held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of December 31, 2003, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Insured or registered for which the securities are held by the County's agent in the County's name - U.S. Securities	\$ 356,328	\$ 356,328
Uncategorized pooled investment funds	<u>187,287</u>	<u>187,287</u>
	<u>\$ 543,615</u>	<u>\$ 543,615</u>

The investments of U.S. Treasury Securities are not insured but are backed by the full faith and credit of the Federal Government.

Lake County, Michigan

Building Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2003:

Cash and cash equivalents	\$ 285,362
Investments - restricted	<u>356,328</u>
	<u>\$ 641,690</u>

NOTE C: FIXED ASSETS

The following schedule summarizes the changes in components of the General Fixed Assets Account Group recorded within the Building Authority.

	Balance Jan. 1, 2003	Additions	Deletions	Balance Dec. 31, 2003
Buildings and improvements	<u>\$ 8,361,766</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,361,766</u>

NOTE D: LONG-TERM LEASE

The Building Authority is party to a long-term lease agreement for rental of the Lake County Family Independence Agency Building to the County, who in turn sublease the facility to the State of Michigan. The Building Authority is also party to a long-term lease agreement for rental of the Lake County Courthouse and Jail to the County. The lease agreements stipulate that the annual rentals be paid by the County and the State government to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired for the buildings, rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County. An amount has been recorded in the financial statements as net leasehold receivable and deferred revenue to reflect amounts sufficient to pay the balance of the bond principal and interest requirements for the 1991 Bonds as required by the lease agreement. An additional amount has been recorded as net leasehold receivable and deferred revenue to reflect amounts sufficient to pay the bond principal requirements for the three (3) 1998 bonds.

NOTE E: LONG-TERM DEBT

Lake County is party to three (3) long-term lease agreements for rental of State of Michigan Family Independence Agency building and the Courthouse and Jail from the Lake County Building Authority. These lease agreements stipulate that annual rentals will be paid by the County and the State government to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds which shall be pledged exclusively for that purpose. When all debt has been retired on these buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Lake County, Michigan

Building Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE E: LONG-TERM DEBT - CONTINUED

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended December 31, 2003.

	Balance Jan. 1, 2003	Additions	Reductions	Balance Dec. 31, 2003
1991 Building Authority Bonds	\$ 1,275,000	\$ -	\$ 100,000	\$ 1,175,000
1998 Bonds, Series 1998, No. 1	3,319,576	-	67,000	3,252,576
1998 Bonds, Series 1998, No. 2	1,326,424	-	27,000	1,299,424
1998 Bonds, Series 1998, No. 3	<u>1,416,000</u>	<u>-</u>	<u>29,000</u>	<u>1,387,000</u>
	<u>\$ 7,337,000</u>	<u>\$ -0-</u>	<u>\$ 223,000</u>	<u>\$ 7,114,000</u>

The following summarizes significant details regarding these bond issues:

\$2,000,000 Lake County Building Authority Bonds, Series 1991, dated January 1, 1991, due in annual installments ranging from \$100,000 to \$190,000 through October 1, 2011, with interest of 7.0 percent, payable semi-annually. \$ 1,175,000

\$6,500,000 Lake County Building Authority Bonds; Series 1998, Bond No. 1, 2, and 3, dated June 30, 1998; due in annual installments ranging from \$117,000 to \$396,000 through June 1, 2028; with interest of 4.75 percent, payable semi-annually. 5,939,000

\$ 7,114,000

The annual requirements to pay the principal and interest outstanding are as follows:

Year Ending December 31,	Building Authority Bond Series 1991	Building Authority Bond Series 1998	Total
2004	\$ 192,250	\$ 411,103	\$ 603,353
2005	194,550	410,975	605,525
2006	196,150	410,563	606,713
2007	197,050	410,866	607,916
2008	197,250	410,836	608,086
2009-2013	600,600	2,053,526	2,654,126
2014-2018	-	2,054,490	2,054,490
2019-2023	-	2,053,602	2,053,602
2024-2028	<u>-</u>	<u>2,057,904</u>	<u>2,057,904</u>
	1,577,850	10,273,865	11,851,715
	<u>(402,850)</u>	<u>(4,334,865)</u>	<u>(4,737,715)</u>
	<u>\$ 1,175,000</u>	<u>\$ 5,939,000</u>	<u>\$ 7,114,000</u>

Lake County, Michigan

Building Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE F: RISK MANAGEMENT

The Authority, as a fund of the Lake County, is protected from losses as described in Note J of the County's financial statements.

NOTE G: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following is the fund balance reserve as of December 31, 2003:

Debt Service Fund	
Reserved for	
Bond interest and principal redemption	<u>\$ 627,321</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Lake County Building Authority
Baldwin, Michigan

We have audited the component unit financial statements of the Lake County Building Authority as of and for the year ended December 31, 2003, and have issued our report thereon dated April 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

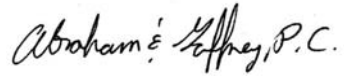
Compliance

As part of obtaining reasonable assurance about whether the Lake County Building Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lake County Building Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses.

This report is intended for the information and use of the administration and Board of Directors of the Lake County Building Authority, the pass-through grantors, and the U.S. Department of Agriculture and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 15, 2004